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UNCLAS SECTION 01 OF 02 SKOPJE 000317

SIPDIS

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SUBJECT: MACEDONIA: IMPACT OF RISING FOOD/AGRICULTURAL COMMODITY
PRICES

REF: A. STATE 39410

[1](#)B. SKOPJE 265

Summary

[1](#)1. Food prices in Macedonia have increased significantly over the past year, especially for grains, dairy products, meats, cooking oil and eggs. Rapidly increasing prices for these products have led to a significantly higher overall inflation rate of 10 percent. So far, however, these price increases have had limited political and environmental impact, and have not led to a significant increase in domestic production. The GOM's response has been limited to relatively unsuccessful public calls on food producers and retailers to restrain the increase in prices for key staples. End summary.

Demand

[1](#)2. For Macedonia, the increase in the prices of wheat and animal feed has had the most significant impact. Domestic production satisfies about 60 to 70 percent of the country's total wheat consumption, and less than 60 percent of animal feed consumption. Feed prices increased 48 percent for the period October 2007 to February 2008, compared to the same period the previous year. This has led to higher prices of flour, bread, dairy products and meat. There is anecdotal evidence that lower income consumers have reduced their consumption of these products, but no reliable statistics are available.

[1](#)3. Macedonia produces sufficient vegetables and non-tropical fruit to meet most domestic demand, and exports some of these products. Higher production costs, primarily for fuel, and greater export demand has led to higher domestic prices for fruits and vegetables.

Supply

[1](#)4. So far, there is no evidence of significant increases in domestic agricultural production in response to the higher prices. There is no significant foreign investment in agricultural production in Macedonia, with the exception of dairy production. Over 200,000 hectares of arable land, almost one fifth of the total agricultural land, remains un-used. Macedonia currently does not produce any bio-fuel products, though there have been discussions of the possibility of growing crops for bio-diesel production.

[1](#)5. In 2007, Macedonia imported \$438 million worth of food/agricultural commodities, and exported \$385 million worth of these products. Macedonia's most significant agricultural exports

are tobacco, lamb meat, dairy products, and fruits and vegetables. Macedonia's primary agricultural imports are meat (beef, pork and poultry), wheat, dairy products and sugar.

Political Impact

¶16. There have been no reports of public protests or other such incidents related to the increase in food prices. Macedonia will hold parliamentary elections on June 1, but so far rising food prices have not been a major campaign issue, and public opinion polls have shown the main governing party with an imposing lead over the opposition.

Economic Impact

¶17. Inflation, as measured by the consumer price index (CPI), has risen dramatically in Macedonia over the past year, from about two to three percent year-over-year for 2003-2007, to over ten percent in February and March 2008. Rising food and fuel prices have contributed the most to the accelerating inflation rate (ref B). According to GOM statistics, food prices were 21 percent higher in March compared to the previous year. The largest contributors were dairy products (up 15.6 percent from one year ago); bread (up 18.8 percent); cooking oil (up 26.8 percent); and vegetables (up 40.5 percent, but from a relatively low base price). Because food products make up a relatively large proportion of the consumer products used to calculate the consumer price index in Macedonia, rising food prices have had a greater impact on CPI inflation rates than in more developed countries.

¶18. Those most affected by higher food prices are the 29.8 percent of

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the population who, according to the State Statistics Office, live under the poverty line. The GOM estimates that approximately 17 percent of workers are employed in agriculture and therefore might benefit from the increase in agricultural prices. There is no estimate available for what percentage of the poorest households are also food producers who could benefit from higher prices.

Environmental Impact

¶19. Because rising food prices have not yet led to a significant increase in agricultural production in Macedonia, there has been no identifiable environmental impact.

Government Policy Response

¶10. The GOM has not implemented any export restrictions, nor changed tariffs or quotas in response to rising food/agricultural commodity prices. The GOM called on local food producers, processors and retailers to limit the increase in food prices for key staples, such as milk and cooking oil. For a few weeks, the major supermarkets advertised lower prices on some food products, crediting a partnership with producers and the government. However, that advertising campaign has ended and prices on these products have again increased.

¶11. The GOM has increased agricultural subsidies significantly, but from a very low base, and this policy was formulated before food prices jumped. Agricultural subsidies increased to 27 million euros in 2007 from 17 million euros in 2006, and are slated to increase to 45 million euros in 2008. In May 2008 the GOM will start payment of subsidies for production of wheat, cooking oil, wine grapes and fruit, milk and cattle, and poultry.

Impact on Post's Programs

¶12. Post currently supports two agricultural assistance programs: a USAID project to increase agricultural competitiveness of private producers, and a USDA project to help the GOM implement an agriculture market information system (MIS). For the USAID agriculture project, higher regional food prices may provide a competitive opportunity to market Macedonian agricultural products, but it is still too early to determine how higher food prices will affect the project's objectives. USDA's MIS project will improve

the GOM's collection and distribution of information on agricultural prices in Macedonia, and should enhance agricultural producers' ability to respond effectively to domestic market prices.

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